

ISAC's Legislative Proposals Related to Property Taxes

1. Property Tax Reform
 - a. Stabilize tax base
 - b. Improve fairness of tax base
 - c. Increase accountability for local governments
 - d. Reasonable limit on local property taxes
2. Tax Increment Financing
 - a. Prevent excessive and inappropriate uses of TIF
 - i. County and other stakeholder approval of TIFs
 - ii. 20-year duration limit on all currently unlimited TIF districts
 - iii. Re-establish the base year when new debt is issued
 - iv. Prohibit tax abatement in TIF districts
 - b. Apply rollback proportionately to TIF base and increment
 - c. Prohibit manipulation of TIF boundaries
3. Mental Health Property Taxes
 - a. Allow counties to be capped at a levy rate instead of a dollar amount of mental health property taxes
 - b. Narrow the range of mental health levy rates
 - i. Current range is \$0.20 to \$2.80
4. Agricultural Buildings
 - a. Remove ag buildings from the productivity formula and assess like all other buildings – at fair market value
5. Residential Property Taxation
 - a. Repeal the condo loophole – assess all buildings primarily used as a commercial venture as commercial property
6. Urban Revitalization Tax Abatement
 - a. Require county and other stakeholder approval of UR abatements
7. Assessment of Cablevision
 - a. Require the Department of Revenue to centrally assess all cablevision property
8. Flood and Erosion Control Levy
 - a. Allow counties to spread their current levy for flood and erosion control over all rural property, not just agricultural lands
9. Manufactured Home Taxes
 - a. Allow county treasurers to withhold vehicle registration/renewal for owners who have delinquent taxes on manufactured homes or buildings on leased land
 - b. Increase the square-footage tax on manufactured homes
10. Local Option Income Tax
 - a. Allow cities and counties to impose a local option income tax if approved by a vote of the people

1. Property Tax Reform

ISAC supports property tax reform that stabilizes the tax base, resolves unfair discrepancies within the current tax base, improves accountability in the budgeting processes of cities and counties, and imposes a reasonable limitation on city and county property taxes while maintaining local control for citizens and their elected representatives.

2. Urban Renewal (Tax Increment Financing)

a. Urban Renewal Use

PROBLEM: Urban renewal will lose its effectiveness as a targeted economic development tool if it is used extensively or for a prolonged period of time. Excessive or inappropriate use of tax increment financing (TIF) to fund urban renewal projects prevents local governments from realizing the benefits of their expanding tax bases and places the burden for funding expanded services on existing taxpayers.

SOLUTION: All TIF districts, particularly those designated for eliminating urban slum or blight and those created prior to January 1, 1995, and designated for economic development, should be limited to a duration of 20 years from inception or the term of the bonded indebtedness as of January 1, 2008, whichever is greater. In the establishment and operation of TIF districts, local governments should not be allowed to act independently of other taxing jurisdictions that share the property tax base. If a TIF project cannot gain the support of all taxing jurisdictions, then individual entities should be allowed to rebate their portion of property taxes to the property owner. Anytime a TIF district issues new debt, the base year should be re-established as the year immediately preceding the debt issuance. Finally, tax abatement should be prohibited in TIF districts.

b. Rollback Applied to TIF Districts

PROBLEM: Iowa Code §403.20 requires the entire reduction in assessed value due to the rollback to be applied to the base value in a TIF district, and none to the increment value, until the base value is reduced to zero. (Base value is taxable by all taxing authorities and is the taxable portion that remains after taking out the increment valuation reserved for TIF projects.) This erosion of the base often results in non-TIF entities having a smaller tax base than before the TIF was created. This obviously is contrary to the intent of TIF law.

SOLUTION: Strike Iowa Code §403.20 and amend the urban renewal law in Iowa Code §403.19 to require rollbacks to be applied proportionately to base and incremental valuations to determine the taxable values of each. This may jeopardize current bonded indebtedness repayment, and in those cases the current incremental value should be exempt from the rollback provision until current bonded TIF debt is retired. New bonded TIF debt should have the rollback factor applied to the incremental value as well as the base value.

c. Removal of Negative Increment Parcels in TIF Districts

PROBLEM: Nothing prevents a TIF entity from removing from a TIF district a parcel that is losing value. Therefore, parcels can be added and subtracted to manipulate the highest possible increment value for the district. While this may serve the purposes of the TIF entity, it is unfair to the remaining local taxing jurisdictions, which are denied the benefits of increased taxable valuation. It is also an administrative hassle for counties, which must adjust records that are already complicated to maintain.

SOLUTION: Amend the urban renewal law in Iowa Code §403.19 to prohibit removing parcels from an active TIF district.

3a. Adequate Funding for Mental Health Services

PROBLEM: In 1996 the Legislature froze the property tax contribution to MH/DD services and promised that the state would cover the increases in costs of services due to inflation, new consumers, and other costs over and above inflation. In 2002, growth appropriations were reduced by \$18 million. That cut forced counties to reduce their fund balance and raise levies. Statewide MH/MR/DD fund balances were reduced to 12% at the end of FY06. Counties are now levying 95% of the total statewide levy capacity, with 73 counties at the maximum allowed by law. Costs of services, especially Medicaid services, have increased at a much greater rate than allowable growth dollars. Counties do not have any way to cushion the impact of funding shortfalls from the state. MH/DD budgets are in a state of crisis. Programs and services are being cut and compromised because counties cannot generate any new dollars for MH/DD services. Half of the 2002 cut, adjusted for inflation, was restored by the 2007 session of the Legislature.

SOLUTION: ISAC supports legislation to allow counties the option of using the levy rate as the cap instead of the levy dollar amount without any loss of property tax relief or allowed growth. This would allow counties the option to generate additional revenue to address the rising costs of services and effectively meet the needs of persons with disabilities in their own community. Additionally, the balance of the \$18 million cut made in FY02, as adjusted for inflation, must be fully restored and future growth must address the three factors in SF 69 (service cost inflation, increases in number of consumers, and investments for economy and efficiency). This amount of money is necessary to maintain current services before making additional investments for system improvement. In addition, the appropriation for the state-operated BI program must be uncoupled from the MH/DD allowed growth fund.

3b. Mental Health Funding

PROBLEM: The range of levy rates supporting the county MH/DD system is widening due to the increasing valuations in some areas of the state and the decreasing valuations in other areas. The range for FY08 is from \$0.20 to \$2.80. Some counties with low fund balances are struggling to meet the 100% levy requirement because of the significant burden it will put on their taxpayers, while other counties with rapidly increasing valuations are struggling to maintain services even though their MH/DD levy rates are falling.

SOLUTION: Redefine the 100% levy rate for any county with a maximum levy rate greater than \$2.50 at \$2.50. The county would have the option of levying \$2.50 or anything above to their maximum rate, but would be considered to be levying at 100% at any rate at or above \$2.50 for purposes of allowed growth distribution. Counties with levy rates below \$1.00 would be allowed to increase their rate by up to \$0.05 per year up to a rate of \$1.00. Counties below \$1.00 would be considered to be levying at 100% whether they continue at their current maximum rate or take advantage of the flexibility to increase their rate.

4. Agricultural Building Value

PROBLEM: Agricultural buildings account for about \$2.8 billion, or 2.6%, of taxable property value in Iowa. The actual market value of these buildings is probably over \$10 billion. However, the value generated from agricultural buildings is automatically

subtracted from the value generated for agricultural land by the productivity formula. The result is that the construction of any new agricultural building adds zero net value to Iowa's property tax base. This situation serves as a disincentive to agricultural economic development because large-scale livestock operations impose significant additional costs on counties, such as road maintenance, without expanding the tax base to help pay for those costs.

SOLUTION: Assessors should value agricultural buildings like all other improvements – at their full market value. The value of those buildings would be in addition to the value generated by the productivity formula for agricultural land. This could be accomplished by adding the following new language at the end of Iowa Code §441.21(6): “Beginning with valuations established as of January 1, 2009, a structure located on agricultural land, excluding agricultural dwellings, shall be valued at its market value as defined in this section. Such structures shall be valued as agricultural structures and the valuation determined under this subsection shall be in addition to the valuation determined for agricultural land under subsection 1.”

5. Repeal Condo Loophole

PROBLEM: Identical properties are being taxed at dramatically different rates just because one is called a condominium and the other is called an apartment. The Department of Revenue (DOR) has an administrative rule that classifies buildings with three or more separate living quarters as commercial property. However, there is a loophole. If an apartment is built as or converts to a multiple housing cooperative under Iowa Code chapter 499A or a horizontal property regime (condominium) under Iowa Code chapter 499B, it is classified as residential property and receives the benefit of the residential rollback. This is true even though all the units in the condominium building are still rented out like a regular apartment building. This causes two problems. First, there is the deterioration to the tax base as apartments convert to condos and cut their taxable values by more than half, or as new apartments are built as condos and taxed at less than half their full value. Second, there is the inequity between apartment buildings and condos. These properties are competitors; they serve the same purpose; they are for all intents and purposes identical. But one has a tax bill less than half the other just because it calls itself a condo. That is unfair.

SOLUTION: Add new subsection 13 to Iowa Code §441.21:

Beginning with valuations established on or after January 1, 2009, as used in this section, “commercial property” includes all buildings that are intended for human habitation and contain three or more separate living quarters, which buildings are primarily used as commercial ventures, including apartments, multiple housing cooperatives under chapter 499A, and horizontal property regimes (condominiums) under chapter 499B, regardless of whether the separate living quarters comprise one parcel of real property or are separate parcels of real property. A building intended for human habitation is primarily used as a commercial venture if, in the majority of separate living quarters contained in the building, rent is paid by or on behalf of any occupant to the owner or any other party responsible for collecting rent on behalf of the owner, where the rent is generally understood to be the price of occupying the living quarters for a set period of time.

Also, amend Iowa Code §441.21(11) to read as follows:

Beginning with valuations established on or after January 1, 1995, as used in this section, “residential property” ~~includes all land and buildings of multiple housing~~

~~cooperatives organized under chapter 499A~~ and includes land and buildings used primarily for human habitation which land and buildings are owned and operated by organizations that have received tax-exempt status under section 501(c)(3) of the Internal Revenue Code and rental income from the property is not taxed as unrelated business income under section 422.33, subsection 1A.

6. Urban Revitalization (Property Tax Abatement)

PROBLEM: Some municipalities overuse the urban revitalization property tax abatement. This is circumventing the intent of the law and adversely affecting the taxing ability of other jurisdictions, such as counties and schools. Tax abatement also negatively affects state finances because of the school aid formula.

SOLUTION: Amend the urban revitalization tax exemption law in Iowa Code chapter 404 so that the granting entity can only abate the taxes with the approval of all affected taxing entities. If any other taxing entity elects not to participate in the urban revitalization project, the granting entity may elect to reimburse its own portion of the taxes directly to the taxpayer(s) in order to provide the tax abatement.

7. Assessment of Cablevision

PROBLEM: Currently the local assessor in each jurisdiction assesses cablevision. Because of changing technology, cablevision no longer resides on its own "cable." Many companies are providing telephone and Internet access using the same fiber-optic cable. Telephone companies are centrally assessed by the Department of Revenue (DOR) as utilities and the value is then distributed accordingly to each jurisdiction. It has become increasingly harder for assessors to distinguish the necessary items to correctly assess cablevision property. This causes inconsistency of assessments among jurisdictions and leads to inequity for property owners.

SOLUTION: Change the provisions for utility companies to require the DOR to centrally assess all cablevision property and to include all cablevision providers.

8. Flood and Erosion Control Levy

PROBLEM: Iowa Code §161E.9 authorizes counties to levy a tax of up to \$0.0675 per thousand on all "agricultural lands" in the county for the purpose of flood and erosion control. The practical mechanics of county budgeting and tax systems, however, make it difficult to apply a tax upon only one classification of real property.

SOLUTION: Amend Iowa Code §161E.9 to read as follows: "The county board of supervisors may annually levy against all taxable property not located within the corporate limits of any city within the county a tax not to exceed an amount equal to six and three-fourths cents per thousand dollars of assessed value of all agricultural lands in the county, to be used for flood and erosion control...." This proposed language would maintain the tax's current revenue limit but allow for more efficient implementation.

9a. Treasurers' Issues

a. Delinquent Taxes – Buildings on Leased Land

PROBLEM: When a building or improvement is owned by a person other than the owner of the underlying land, the taxes are a lien on the building or improvement until paid. When taxes are unpaid on such a parcel the only means of collection is an ordinary lawsuit.

SOLUTION: In addition to all other remedies and proceedings provided by law for the collection of taxes, the county treasurer may refuse to renew the registration of any and all vehicles registered to the applicant if the county treasurer knows, from information provided through the county system, that the person is the owner of record of a building or improvement with delinquent tax owed to a county and the owner of the building or improvement is a person other than the owner of the land on which the building or improvement is located. If the county treasurer refuses to renew the applicant's registration, the county treasurer of the county where renewal of registration is applied for shall collect the delinquent tax for the county where the building or improvement is located. Upon payment of the required amount for the delinquent tax including applicable fees and penalties, an administrative fee as provided in Iowa Code §331.557(3)(a), and the registration fee, the county treasurer shall issue the registration to the person. The county treasurer to whom the delinquent taxes are paid shall update vehicle records to remove registration restrictions that have been satisfied or canceled by the county treasurer.

b. Delinquent Taxes – Mobile Homes

PROBLEM: If a person is delinquent with the taxes on his or her mobile home, treasurers can sell the title at tax sale. However, the titles frequently end up being picked up at the tax sale by the county. At the end of the redemption period when the taxes are not redeemed the county does not take title to the mobile home because it does not want to assume ownership of the mobile home.

SOLUTION: The county treasurer may refuse to renew the registration of any and all vehicles registered to the applicant if the county treasurer knows, from information provided through the county system, that the person owns a mobile home or manufactured home with delinquent tax owed to a county pursuant to Iowa Code chapter 435. If the county treasurer refuses to renew the applicant's registration, the county treasurer of the county where renewal of registration is applied for shall collect the delinquent tax for the county where the mobile home or manufactured home is located. Upon payment of the required amount for the delinquent tax including applicable fees and penalties, an administrative fee as provided in Iowa Code §331.557(3)(a), and the registration fee, the county treasurer shall issue the registration to the person. The county treasurer shall cancel the registration restriction for the person for each mobile or manufactured home parcel sold at tax sale pursuant to Iowa Code chapter 446, except for those mobile or manufactured home parcels sold at tax sale pursuant to Iowa Code §446.18. The county treasurer shall cancel the registration restriction for the person for each tax sale certificate of title issued pursuant to Iowa Code §435.25. The county treasurer to whom the delinquent taxes are paid shall update vehicle records to remove registration restrictions that have been satisfied or canceled by the county treasurer.

9b. Manufactured Home Taxes

PROBLEM: Taxes on manufactured homes have not changed for over twenty years, while real estate taxes have experienced significant increases. A stick-built home of equal square-footage pays much higher taxes than a comparable manufactured home. A manufactured home pays \$0.20 per square foot annually for the first six years, \$0.18 for the next four years, and \$0.16 per square foot thereafter.

SOLUTION: Raise the annual square-footage tax on manufactured homes to \$0.30 for the first six year, \$0.26 for the next four years and \$0.22 thereafter.

10. Local Option Income Tax

PROBLEM: Under current Iowa law (Iowa Code chapter 423B), cities and counties have two options to raise local option revenues. They are the local option sales tax and the local vehicle tax. Both of these options are regressive ways to raise public revenues. By regressive, we mean that both of these taxes require lower- and middle-income residents to pay a greater percentage of their income than higher-income residents.

SOLUTION: Iowa Code §§ 257.19, 257.21, 298.2 and 298.14 allow school districts to collect a surcharge on the Iowa income tax from residents of the school district. The income tax is a progressive tax that requires higher-income residents to pay a higher percentage of their income than lower- and middle-income residents. Adding an income tax surcharge to the options available to cities and counties would give the officials in those jurisdictions a progressive option to raise revenues. The income tax surcharge, like the local option sales tax, could only be implemented if approved by a vote of the people.